BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2018-319-E

In the Matter of:	)	
	)	**REBUTTAL TESTIMONY OF**
Application of Duke Energy Carolinas, LLC	)	**MICHAEL J. PIRRO**
for Adjustments in Electric Rate Schedules	)	**FOR DUKE ENERGY**
and Tariffs and Request for Accounting Order	)	**CAROLINAS, LLC**

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND CURRENT POSITION.

A. My name is Michael J. Pirro, and my business address is 550 South Tryon St., Charlotte, North Carolina. I am Director, Southeast Pricing & Regulatory Solutions for Duke Energy Carolinas, LLC ("DE Carolinas" or the "Company"), Duke Energy Progress and Duke Energy Florida.

Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony supporting Duke Energy Carolinas LLC's ("DE Carolinas" or "the Company") overall rate design and sponsoring the proposed tariffs in this proceeding.

II. PURPOSE AND SCOPE

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to:

- The testimony of Office of Regulatory Staff witness Michael Seaman-Huynh; Vote Solar witness Justin R. Barnes; NAACP, SC Coastal Conservation League, and Upstate Forever witness Jonathan Wallach, and SC NAACP, CCL, and Upstate Forever witness John Howat regarding the Company's proposed increase in the residential basic facilities charge;
- Office of Regulatory Staff witness Michael Seaman-Huynh's testimony regarding recommended rate class rate of returns;

- Vote Solar witness Justin R. Barnes' testimony regarding the Company's AMI-enabled rate designs;
- Walmart witness Gregory R. Tillman testimony regarding the Company's Grid Improvement Plan (GIP);
- Vote Solar witness Justin R. Barnes' testimony regarding recovery of revenues under the Excess Deferred Income Tax ("EDIT") Rider;
- and the testimony of South Carolina Energy Users Committee witness Kevin O'Donnell regarding the Company's Hourly Pricing.

Q. PLEASE DESCRIBE THE REBUTTAL EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have one exhibit to my rebuttal testimony as follows:

- Pirro Rebuttal Exhibit No. 1 - revised derivation of recommended Phase 1 and 2 rates in the proposed Grid Implementation Plan.

III. REBUTTAL TESTIMONY

RESIDENTIAL BASIC FACILITIES CHARGE

Q. WHAT IS THE COMPANY'S RECOMMENDED ADJUSTMENT TO THE RESIDENTIAL BASIC FACILITIES CHARGE?

A. DE Carolinas proposed changing the Residential Basic Facilities Charge from $8.29 to $28.00 to reflect full cost recovery of the customer component identified in the unit cost study.

Q. WHY IS THIS INCREASE APPROPRIATE?

A. It is important that the Company's rates reflect cost causation to minimize subsidization of customers within the rate class. Customer related costs are unaffected by changes in customer consumption and therefore should be paid by all customers, regardless of their consumption.

Q. WHAT IS THE HARM CAUSED BY SETTING THE BASIC FACILITIES CHARGE BELOW ITS COST BASIS?

A. Residential customer-related revenue not recovered in the Basic Facilities Charge is shifted to energy rates causing high usage customers to subsidize lower usage customers. Failing to properly recover customer-related costs via a fixed monthly charge provides an inappropriate price signal to customers and fails to adequately reflect cost causation. Shifting customer-related costs to the kWh energy rate further exacerbates this concern and over-compensates energy efficiency and distributed generation for the costs avoided by their actions.

Q. OFFICE OF REGULATORY WITNESS MICHAEL SEAMAN-HUYNH STATES THAT THE RESIDENTIAL BASIC FACILITIES CHARGE SHOULD RECOVER NO MORE THAN 25% OF THE APPROVED REVENUE INCREASE ASSIGNED TO THAT CUSTOMER CLASS. DO YOU AGREE?

A. No. An economically efficient rate design minimizes subsidization between customers and customer classes, and the Company has reflected this principle in its proposal. While Witness Seaman-Huynh's recommendation moves to reduce subsidization, the Company is concerned that deferring a larger increase at this time

merely shifts the need to increase the Basic Facilities Charge to a future rate case proceeding.

Q. SC NAACP, CCL, AND UPSTATE FOREVER WITNESS HOWAT ARGUES THAT THE PROPOSED BASIC FACILITIES CHARGE IS HIGHER THAN OTHER UTILITIES AND IS THEREFORE INAPPROPRIATE. IS THIS A VALID COMPARISION?

A. No. The Company's rates should be set based upon a careful examination of its cost of service and an allocation of those costs to the jurisdictions and customer classes based upon methodologies found appropriate by this Commission. In this proceeding, the Company has examined its costs and identified customer-related costs in excess of its current Basic Facilities Charge. Other utilities' cost and rates are not relevant to a determination of DE Carolinas' rates.

Q. ARE VOTE SOLAR WITNESS BARNES AND NAACP, SC COASTAL CONSERVATION LEAGUE AND UPSTATE FOREVER WITNESS WALLACH CORRECT IN ASSERTING THAT AN INCREASE IN THE BASIC FACILITIES CHARGE DISCOURAGES DISTRIBUTED GENERATION AND ENERGY EFFICIENCY?

A. Yes, but overstating the Basic Facilities Charge discourages prudent investment in distributed generation and energy efficiency. DEC offers numerous DSM and EE programs that encourage customers to use electricity efficiently and wisely. The purpose of rate design is to fairly recover the Company's costs from its customers based upon principles of cost causation, not to necessarily encourage energy efficiency and distributed generation simply for their own sake. The proposed

increase to the Basic Facilities Charge eliminates a false savings that exists when customers make imprudent investments based on inaccurate price signals.

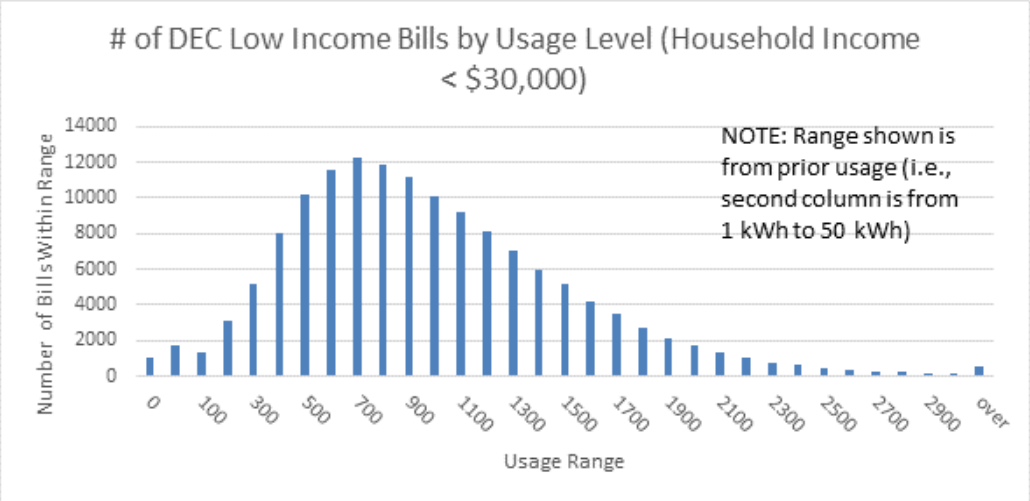
Q. DO YOU AGREE WITH WITNESSES BARNES, HOWAT AND WALLACH THAT THE INCREASE IN THE BASIC FACILITIES CHARGE SHOULD BE LIMITED TO THE PERCENT INCREASE APPROVED BY THE COMMISSION FOR EACH SPECIFIC RATE CLASSS?

A. No. This approach does not follow the principles of cost causation and recovering fixed costs via a kwh charge has the following detrimental consequences: 1) high usage customers subsidize low usage customers; 2) low use customers do not pay the full cost of the utility plant installed to serve them; 3) it does not provide an accurate price signal regarding the Company's costs upon which customers can make economic decisions to make investments that reduce kWh consumption; and 4) it will forever delay appropriate recovery of the Company's customer related costs through the Basic Facilities Charge.

Q. DOES THE PROPOSED BASIC FACILITIES CHARGE DISPROPORTIONATELY HARM LOW-INCOME CUSTOMERS AS ARGUED BY SC NAACP, CCL, NAD UPSTATE FOREVER WITNESS HOWAT?

A. No. Below, is a chart that illustrates the number of South Carolina DE Carolinas customer bills by usage levels for customers with household income below $30,000. These charts demonstrate that low income customers' electricity usage is quite diverse with many customers having usage above the South Carolina

residential monthly average of 1,100 kWh. In addition, a significant number of low income customers are clustered around the 600-1000 monthly average kWh.



Furthermore, since the total number of low usage customers greatly exceeds the number of low-income customers identified above obviously there are reasons other than income for low usage such as customers with second homes, vacant homes that are for sale and customers with solar panels. The Company is mindful of the impact of any rate increase on our customers, particularly low-income customers; however, the Company does not design rates based upon customer incomes as advocated by Witness Howat, but rather applies cost causation principles to the extent practical. There are other means of addressing the financial needs of low-income customers which are more effective than biasing the rate design, such as Company, state and local programs. For example, energy efficiency programs, such as the Company's Residential Income Qualified Energy Efficiency and Weatherization Assistance Program, aid low-income customers in reducing their consumption of energy at no cost to the consumer. Other Company programs, such as budget billing and payment arrangements, are available to assist all

customers in managing their cost for electricity. The Energy Neighborhood Fund is promoted by the Company and raises funds for local aid agencies to assist low-income customers. These initiatives are more effective than biasing the rate design to aid low-usage customers. Finally, as mentioned earlier, inappropriately pricing the Basic Facilities Charge below cost over-addresses the alleged problem, because all low usage customers benefit, not just low-income customers.

Q. SEVERAL INTERVENORS ARE OPPOSED TO THE PROPOSED INCREASE IN THE BASIC FACILITIES CHARGE, ALLEGING THAT THE COSTS IDENTIFIED BY THE MINIMUM SYSTEM METHODOLOGY ARE NOT CUSTOMER COSTS AND SHOULD NOT BE INCLUDED IN THE BASIC FACILITIES CHARGE. PLEASE RESPOND TO THAT ALLEGATION.

A. The rates and rate design supported by my testimony are based upon the cost of service studies, including the minimum system cost study, performed by the Company and accepted by the Office of Regulatory Staff. The costs in controversy are distribution facilities costs. The Company's cost of service studies indicate that these costs are Customer costs and therefore I designed the Basic Facilities Charge to recover them. If the Commission finds that they are not properly grouped as Customer costs, then, as Witness Hager explains in her rebuttal testimony and as Vote Solar witness Barnes and NAACP, SC Coastal Conservation League, and Upstate Forever witness Wallach state in their direct testimony, these costs should be treated as demand-related costs. Therefore, these costs should be recovered via a demand charge.

Q. RATE SCHEDULE RS, THE COMPANY'S PRIMARY RESIDENTIAL RATE SCHEDULE, DOES NOT HAVE A DEMAND COMPONENT RATHER IT ONLY HAS A BASIC FACILITIES CHARGE AND A KWH CHARGE. IF THE COMMISSION DECIDES THE COSTS IN QUESTION ARE NOT CUSTOMER COSTS HOW SHOULD THESE COSTS BE RECOVERED FROM CUSTOMERS ON RATE SCHEDULE RS?

A. As Witnesses Barnes and Wallach explain in their direct testimony the distribution facilities costs in question represent poles, conductors, conduit, and transformers. These costs are fixed in nature like metering, service drop and billing costs Witnesses Barnes and Wallach support being recovered through the Basic Facilities Charge, and do not vary with customer consumption. Importantly, they are unlike variable operations and maintenance costs and fuel costs which vary directly with energy consumption and are properly recovered via the volumetric kWh rate. Thus, recovering them via a kwh charge provides an incorrect pricing signal.

Q. DO THE COMPANY'S PROPOSED KWH RATES FOR SCHEDULE RS CUSTOMERS INCLUDE COST RECOVERY FOR SOME DISTRIBUTION FACILITIES DEMAND RELATED COSTS THAT WERE NOT IDENTIFIED BY THE MINIMUM SYSTEM STUDY AS CUSTOMER COSTS?

A. Yes. However, doing so sends an incorrect pricing signal.

Q. DOES THE COMPANY HAVE A PROPOSAL TO ADDRESS THIS RATEMAKING CONUNDRUM?

A. Yes. The Company should revise its Rate Schedule RS to include a demand component rate to recover all non-minimum system distribution costs. This design would better reflect cost causation principles.

Q. SEVERAL INTERVENORS AND THE ORS EXPRESSED CONCERN WITH THE MAGNITUDE OF THE PROPOSED INCREASE IN THE BASIC FACILITIES CHARGE FOR RESIDENTIAL CUSTOMERS, AND RECOMMENDED THE COMPANY UTILIZE THE PRINCIPLE OF GRADUALISM IN ESTABLISHING THE BASIC FACILITIES CHARGE. DO YOU AGREE?

A. The Company understands these concerns and believes there is merit in their position. The Company's proposal sought to eliminate the current subsidy and immediately provide customers with more accurate price signals. If the Commission determines that it is appropriate to more slowly phase-in addressing this issue over multiple rate cases, a smaller increase would be appropriate. A possible approach to phasing in the correction was offered by the Company in its recent North Carolina rate case where the increase in the Basic Facilities Charge rate was set equal to 50% of the difference between the current rate and the cost basis[1] Adopting this approach would reduce the proposed Basic Facilities Charge to $18.15.

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[1] North Carolina Utilities Commission. Docket No. E-7, Sub 1146 Pirro Direct Exhibit No.8.

Q. WITNESS HOWAT ALSO SEEKS CHANGES TO THE COMPANY'S ENERGY EFFICIENCY PROGRAMS TARGETING LOW-INCOME CUSTOMERS. ARE SUCH PROGRAMS INCLUDED IN THE COMPANY'S PROPOSAL?

A. No. Revenues for energy efficiency programs are intentionally excluded from rate case revenues since they are considered annually in a demand-side management and energy efficiency ("DSM/EE") cost recovery proceeding. Any recommendations regarding such matters are more appropriately considered in those proceedings.

Q. IN DESIGNING PROPOSED CUSTOMER RATES TO GENERATE DE CAROLINAS' REVENUE REQUIREMENT, IS IT APPROPRIATE TO CONSIDER ENERGY EFFICIENCY PROGRAMS THAT HAVE NOT BEEN APPROVED BY THE COMMISSION AS PROPOSED BY WITNESS HOWAT?

A. No. Rate design involves allocating a utility's actual generation, transmission, distribution and customer costs determined by a cost of service study to the utility's customer classes and developing rates to recover those costs. The issue of whether DE Carolinas should propose additional energy efficiency programs as proposed by Witness Howat should be addressed in DE Carolinas' DSM/EE proceedings.

RATE OF RETURN ALLOCATION

Q. DO YOU AGREE WITH THE RECOMMENDATION MADE BY THE ORS REGARDING RATE CLASS RATE OF RETURNS?

A. Yes, the Company's approach aligns with the ORS recommendation that any revenue requirement increase be allocated in a manner in which rate of returns by rate class are as fair and equitable as practicable with continued movement towards -/+10% band of reasonableness.

AMI - DYNAMIC RATE DESIGNS

Q. DO YOU AGREE WITH VOTE SOLAR WITNESS BARNES' CONTENTION THAT THE COMPANY LACKS A CLEAR PLAN FOR DEPLOYING INNOVATIVE DYNAMIC PRICING RATE DESIGNS?

A. No. As discussed earlier in my direct testimony, the Company is actively evaluating potential rate designs that can better incent staggering and shifting of usage while we develop the infrastructure required to support such designs.

Q. WHY ARE MORE TIME-BASED RATE DESIGNS APPROPRIATE?

A. To the extent practical, tariffs should be designed to provide cost-based price signals that incent economically-efficient electric use. While current designs utilizing a single volumetric charge are efficient in collecting a revenue requirement, they do not communicate changes in the Company's cost of service based upon real time circumstances. While the introduction of both energy and demand rates is an improvement in reflecting cost causation, it still doesn't adequately discourage usage during system peak times. Time-of-use ("TOU") designs were introduced over 30 years ago and improve price signals by

recognizing cost differentials that occur throughout each day, but they provide the same price signals during days with both mild and extreme weather. The next generation of rate designs can improve these price signals and reward customers that aid in reducing loads during the peak periods that increase the utility's cost of service. These new designs will more accurately communicate the higher cost incurred to serve load during critical peak periods and offer customer savings if they reduce their usage to help mitigate these costs.

Q. WHAT IS REQUIRED TO SUPPORT THESE NEW INNOVATIVE TIME-BASED RATE DESIGNS?

A. Three enablers are required to support the introduction of successful innovative time-based rates:

(1) Granular meter data that supports pricing that more closely aligns with cost causation – this leg is supported with our Smart Meter Deployment.

(2) A robust billing system that supports billing more sophisticated designs – this leg will be well supported with our Customer Connect Deployment.

(3) Education and tools to aid customers in understanding tariff price signals and effectively shifting usage – this is still evolving, but is a critical component of a sound rate design.

Q. WHAT IS THE DIFFERENCE BETWEEN THE PRIOR GENERATION OF METERS AND METERING AVAILABLE WITH DEPLOYMENT OF SMART METER TECHNOLOGY FROM A RATE DESIGN PERSPECTIVE?

A. The Company's historic metering could identify usage by regular watt-hour meters and meters with pre-defined TOU periods, but lacked the sophistication necessary to offer rates for the majority of customers that varied on a real-time basis. Due to cost considerations, sophisticated metering that identified usage for each interval of the month was only practical for large customers and customers served under hourly pricing or curtailable rate options. Smart meter deployment now allows interval level data to be available for all customers; thereby opening the opportunity to provide better price signals to all customers in Company rate designs.

Q. WHAT RATE DESIGN ACTIVITIES ARE CURRENTLY UNDERWAY TO BENEFIT FROM THE AVAILABILITY OF INTERVAL METER DATA?

A. Smart Meter deployment was only recently completed for DEC; therefore, the Company is now gathering its first full year of usage history that is necessary to properly evaluate a new rate design. The first stage of the Company's investigation is to utilize data analytics to assess whether the current rate classes are appropriate from a cost causation perspective. For example, this will allow us to identify whether a single residential rate class continues to be appropriate or if there are distinct differences within the class, from a cost causation perspective, meriting further differentiation. This level of analysis was constrained in the past when interval data was only available for a load research sample of the class population.

Q. WHAT CHANGES ARE NECESSARY TO SUPPORT BILLING DIFFERING RATES ON AN INTERVAL BASIS?

A. First, the current customer information billing system doesn't support billing at an interval basis. While it supports billing for fixed pre-determined rating periods, such as those offered under a TOU design, it lacks the capability for different rates to apply to usage during specific hours which are identified on a real-time basis to reflect changes in utility cost. Information available to the customer at the meter will also change since pricing won't be isolated to specific pre-determined time-based rate periods. Total usage can continue to be provided on a meter register at the customer's site, but meter data by interval will now need to be provided to customers via a web portal on a one day lag. This interval level data will aid customers in understanding how they consume electricity and empower them to take steps to better control their consumption.

Q. WILL CUSTOMER CONNECT PROVIDE THE CAPABILITY TO BILL TIME-BASED RATE DESIGNS?

A. Yes. Customer Connect will offer increased flexibility to bill innovative rate designs and has already been used by other utilities to support critical peak pricing designs.

Q. IN ADDITION TO ACCESSING METER DATA, WHAT OTHER STEPS ARE UNDERWAY TO HELP CUSTOMERS BETTER UNDERSTAND HOW THEY CAN INFLUENCE THEIR COST FOR ELECTRICITY?

A. Two keys necessary to support future rate designs are (1) communication tools and (2) understandable designs. Dynamic rate designs will require routinely

communicating changes in the rate for electricity. Fortunately, there are now numerous avenues available to conveniently provide real time rate information to customers, including text messages, automated phone messages and website notifications. Evaluation of effective customer communications is key to a successful dynamic rate program and will be thoroughly investigated prior to seeking approval of future dynamic designs.

Q. WHAT CAN BE DONE TO HELP CUSTOMERS UNDERSTAND AND RESPOND TO DYNAMIC RATE DESIGNS?

A. The most technically sound rate design won't be successful if customers fail to understand and respond to the price signals. Recent Company research concludes that customers are often confused by electric terminology. Customers are often unclear on how they can influence their usage and are often even confused by standard industry terminology such as Basic Facilities Charge or demand, preferring Administrative Charge and Peak Use. New designs will need to provide clear messages regarding customer expectations to achieve bill savings. The Rate Design team plans to work closely with marketing personnel to improve communications regarding future tariffs. It is hoped that a better understanding of tariff price signals, coupled with increased availability of meter data, will aid customers in understanding the opportunities offered with dynamic designs to save on their electric bill.

Q. CAN NEW RATE DESIGNS BE SUBMITTED BEFORE THESE INFRASTRUCTURE IMPROVEMENTS OCCUR?

A. Yes, but it would be an inefficient exercise. It would be premature to offer a specific rate design before the infrastructure to support the design is available. The Company is actively pursuing several dynamic pricing pilots in its North Carolina jurisdiction and will use this experience in developing future dynamic pricing tariffs in South Carolina. While the pilots only target North Carolina customers, the results will be directly transferable to South Carolina.

GRID IMPROVEMENT PLAN (GIP) RECOVERY AND RATE UPDATE

Q. WHAT ISSUES HAVE BEEN RAISED REGARDING THE COMPANY'S PROPOSED RECOVERY OF COSTS IN THE GIP STEP-UP?

A. Walmart's witness Tillman stated GIP costs are primarily demand-related; therefore, recovery should be based on a rate design that utilizes a kW demand charge rather than a kWh energy charge.

Q. DO YOU CONCUR?

A. Yes, in theory. While I agree that the non-customer related costs are primarily demand-related, I do not agree with recovering these costs using demand rates at this time in this situation for two reasons. First, the Company prefers a uniform approach to recovering grid-related costs in the rider that is consistent with cost recovery in other annual adjustment proceedings. The proposed recovery is consistent with all other adjustment clauses that are recovered using energy rates and better supports the Company's ability to track the Rider GIP revenue for true-up purposes. Demand billing units aren't routinely reported to the same extent that

kWh sales are publicized. Billing on demand would add complexity to future recovery proceedings as the parties verify these determinants. Energy sales are non-controversial and are a better choice. Secondly, not all customers within a rate class are on demand billing, however, this approach could change if the Company implements demand components for all rate schedules. Currently, Schedules OPT and PG are the only DE Carolinas schedules that bill all participants for demand; therefore, Witness Tillman is suggesting a completely unique approach under Schedule OPT that wouldn't apply to the remainder of tariffs.

Q. HAS THE GIP STEP-UP RATE BEEN UPDATED TO REFLECT CHANGES TO THE FUNCTIONALIZED COST OF SERVICE?

A. Yes. Company witness Hager has updated her testimony based upon intervenor testimony and revised the functionalized allocation of costs recovery under the Step-Up rates. Based upon her update, I have revised Pirro Exhibit No. 7 filed in my direct testimony to reflect the revised allocations. Attached is Pirro Rebuttal Exhibit No. 1 that reflects the revised allocation of costs and the rates recommended by the Company for approval in this proceeding.

EXCESS DEFERRED INCOME TAX RIDER EDIT

Q. WITNESS BARNES CONTENDS THAT REVENUES ASSOCIATED WITH THE EDIT RIDER SHOULD NOT BE REFUNDED USING AN ENERGY RATE, BUT ON A PERCENT OF BILL BASIS. DO YOU CONCUR?

A. No, for the same reasons as cited above for recovery of the GIP cost, an energy rate is more appropriate for. Most revenues associated with the EDIT Rider are demand-related; however, refunding them through a demand rate is impractical since many

of the Company's tariffs do not bill customers on a demand basis. Updating and refunding EDIT costs as a percentage of the bill adds unnecessary complication and is inconsistent with all other annual clause adjustments and should therefore be denied.

HOURLY PRICING RATES

Q. PLEASE DESCRIBE THE HOURLY PRICING FOR INCREMENTAL LOAD SCHEDULE HP THAT IS AVAILABLE TO THE COMPANY'S LARGE CUSTOMERS.

A. Schedule HP is a voluntary rate option that offers customers the opportunity to purchase incremental energy differing from a baseline load at rates that more closely match the Company's incremental cost of providing the kWh in the given hour. Participants understand that hourly rates will vary throughout the year and therefore offer opportunities to change consumption and benefit from the variable pricing. It is available to nonresidential customers with a contract demand requirement of 1,000 kW or greater and allows usage above or below a baseline amount to be billed at a rate that varies each hour to reflect the Company's marginal cost. Hourly rates are provided to participants on the prior business day. Baseline usage is billed under an applicable standard tariff selected by the customer, while the incremental use is billed at the hourly rate. The hourly rate includes the expected marginal production costs including line losses and other directly-related cost. An incremental demand charge and 0.5 cent per kWh incentive margin also applies to incremental load additions.

Q. HOW ARE HOURLY RATES UNDER SCHEDULE HP CALCULATED?

A. Hourly rates are calculated based upon the marginal or dispatch cost of the generator that is expected to serve the next kWh of system load based upon all available generating plants. It reflects the change in the Company's fuel cost that is anticipated if the customer decides to exceed or reduce load from their baseline load. The determination of the marginal cost is also consistent with the methodology used by the Company to price opportunity sales into the wholesale market.

Q. IS THE RECOMMENDATION OF SCEUC WITNESS O'DONNELL THAT THE HOURLY RATE BE SET AT THE LOWER OF THE COMPANY'S MARGINAL COST OR A WHOLESALE MARKET RATE APPROPRIATE?

A. No. The Schedule HP hourly rates are fundamentally based on Duke system production costs; and not designed to represent or be a proxy for market based pricing. The rate is designed to afford customers the opportunity and flexibility to respond directly, through usage, to short term system costs. It is more analogous to a synthetic bi-directional Demand Response product than a market based product. Customers can increase usage as fits their process during periods of low system costs or decrease their usage during periods of higher system costs. Duke actively participates in the wholesale energy market to the practical limitations of system reliability, transmission availability, and market liquidity, and customers benefit in the aggregate from those market purchases. The HP product in not a market product and was never intended to provide some customers with optionality beyond the

ability of the Company to provide appropriately priced service. Applying hourly rates that are lower than the Company's marginal system cost would result in other customers subsidizing Hourly Pricing customers. The current methodology best reflects the Company's expected fuel cost and is therefore the appropriate basis under which to set hourly rates.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.